

Message Text

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ACTION EB-07

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AMEMBASSY NEW DELHI

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E.O. 11652: N/A

TAGS: PFOR, IN, NP

SUBJ: INDO-NEPALESE TRADE TALKS

REF: NEW DELHI 4401

SUMMARY: TALKS WITH GON OFFICIALS REGARDING FOURTH MEETING OF INDO-NEPALESE JOINT REVIEW COMMITTEE CONFIRM THAT NEPALESE BELIEVE THAT GOI IS USING ISSUE OF PRICE INCREASES FOR ESSENTIAL COMMODITIES AS LEVER TO BRING NEPAL "BACK INTO LINE." FURTHER, GON IS DISTURBED OVER WAY IN WHICH GOI HAS MOVED TO IMPLEMENT PRICE INCREASES, BY INFORMING GON THAT SPECIFIC PRICES FOR INDIVIDUAL COMMODITIES WOULD BE SET IN ACCORDANCE WITH PRICES REALIZED ON CURRENT EXPORT SALES TO OTHER FRIENDLY NEIGHBORING COUNTRIES. GON OFFICIALS CLAIM THEIR UNDERSTANDING WAS THAT PRICES FOR COMMODITIES WOULD BE ESTABLISHED BY COMMERCIAL ORGANIZATIONS OF TWO COUNTRIES WITHOUT GUIDANCE OR INTERFERENCE ON PART OF GOVERNMENT. GON SOURCES ALSO INDICATE THAT INCREASED COST TO GON WILL APPROXIMATE FROM RS. 3 TO 4 CRORE INSTEAD OF RS. 10 CRORE (\$10 MILLION) REPORTED IN INDIAN PRESS. END SUMMARY

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1. INITIAL PRESS REPORTS HERE FOLLOWING CONCLUSION OF TALKS BY INDO-NEPALESE JOINT REVIEW COMMITTEE IN NEW DELHI MARCH 24-26 WERE GENERALLY FAVORABLE, DRAWING ON STATEMENT BY GON SECRETARY OF COMMERCE AND INDUSTRY, WHO SAID TALKS HAD BEEN HELD IN CORDIAL ATMOSPHERE AND THAT INDIANS HAD SHOWN "SIGNS OF COOPERATION" WITH REGARD TO POINTS RAISED BY NEPAL. TALKS WITH GON OFFICIALS, HOWEVER, GIVE SOMEWHAT DIFFERENT PICTURE, WITH WIDESPREAD FEELING THAT INDIA IS BULLYING NEPAL AND USING INCREASE IN PRICES TO TEACH NEPAL THAT ITS "SPECIAL RELATIONSHIP" WITH INDIA CARRIES POLITICAL RESPONSIBILITIES AS WELL. GOI'S POSITION THAT IT IS ONLY "RATIONALIZING ITS ECONOMIC RELATIONSHIPS WITH NEPAL" BY PUTTING THEM ON STRAIGHT COMMERCIAL BASIS HAS PERSUADED NO ONE HERE. OFFICIALS IN MINISTRIES OF FOREIGN AFFAIRS AND COMMERCE WITH WHOM WE HAVE TALKED ARE QUICK TO POINT OUT THAT NEPAL'S REQUIREMENTS ARE MINISCULE COMPARED TO INDIA'S TOTAL EXPORTS, AND THAT SINCE NEW POLICY MAKES NO SENSE IN ECONOMIC TERMS, IT MUST BE BASED ON POLITICAL OBJECTIVES.

2. NEPALESE SEEM SATISFIED OVER LEVEL OF ESSENTIAL COMMODITIES THAT GOI AGREED TO SUPPLY. MAIN PROBLEMS APPEAR TO ARISE OVER PRICE OF COAL IMPORTS. NEPAL REALLY HAS NO SOURCE OTHER THAN INDIA FOR COAL, AND IT IS COAL THAT WILL ACCOUNT FOR MAJOR SHARE OF RS. 3-4 CRORE INCREASE IN NEPAL'S IMPORT BILL FROM INDIA. IN RESPONDING TO GOI POSITION THAT NEPAL IS ONLY BEING PUT ON SAME BASIS AS BANGLADESH, GON OFFICIALS POINT OUT THAT NEPAL TAKES LESS THAN ONE PERCENT OF INDIA'S TOTAL COAL EXPORTS. OTHER ESSENTIAL COMMODITIES ARE NOT EXPECTED TO PREVENT SERIOUS PROBLEMS, AS NEPAL HAS OTHER SOURCES FOR CEMENT, IRON RODS, ETC.

3. GOI ANNOUNCEMENT THAT NEW PRICES WOULD BE SET ACCORDING TO LEVELS PREVAILING FOR CURRENT SALES TO OTHER FRIENDLY NEIGHBORING COUNTRIES HAS ALSO UPSET NEPALESE WHO REPORT THEY UNDERSTOOD THERE HAD BEEN AGREEMENT THAT PRICES WOULD BE ESTABLISHED BY COMMERCIAL ORGANIZATIONS OF TWO COUNTRIES WITHOUT INTERFERENCE ON PART OF GOVERNMENT. COMMERCE OFFICIAL INDICATED THAT NEPALESE HAD HOPED THAT COMMERCIAL DISCUSSIONS WOULD RESULT IN LOWER PRICES THAN THOSE PREVAILING FOR EXPORTS TO OTHER FRIENDLY COUNTRIES. SAME OFFICIAL LIMITED OFFICIAL USE

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SUGGESTED THAT INTERFERENCE OF GOI IN PRICING AMOUNTED TO VIOLATION OF TRADE AND TRANSIT TREATY.

4. MINISTRY OF COMMERCE OFFICIAL TOLD US THAT ARRANGEMENTS HAD BEEN WORKED OUT WHICH WOULD PERMIT NEPAL TO EXPORT RICE WITHOUT INTERFERENCE TO INDIA STATES SUCH AS KERALA. UP TO NOW, INDIAN STATES OF BIHAR AND UTTAR PRADESH HAVE TRIED TO ENSURE FOR THEMSELVES

SUPPLIES OF NEPALESE RICE AT FAVORABLE PRICES BY ASSESSING
LEVY ON ANY NEPALESE RICE TRANSITING THEIR AREAS FOR SALE IN
OTHER MARKETS. BOTH UP AND BIHAR HAVE NOW REPORTEDLY
AGREED TO ALLOW FREE TRANSIT FOR NEPALESE RICE. GON HAS NOT
YET TAKEN A POSITION ON POSSIBILITY OF RAISING PRICE OF RICE
EXPORTS TO INDIA TO ATTEMPT TO PARTIALLY OFFSET
INCREASED IMPORT BILL. OFFICIALS ADMIT THAT SMUGGLING WOULD
BE A PROBLEM IF SUCH A POLICY ADOPTED, BUT BELIEVE IT COULD
BE CONTROLLED TO EXTENT THAT POLICY MAY MERIT CONSIDERATION.

5. GON IS ALSO HOPEFUL THAT PROGRESS CAN BE MADE IN NEAR
FUTURE IN FACILITATING FLOW OF GOODS THROUGH INDIA TO NEPAL.
ACCORDING TO MINISTRY OF COMMERCE, MAIN BOTTLENECK OCCURS
AT BAURANI WHERE GOODS MUST BE TRANSFERRED FROM BROAD GAGED
TRACK RAILROAD CARS TO NARROW GAGE CARS FOR ONWARD SHIPMENT
TO RAXAUL AT INDIA-NEPAL BORDER. IN FIRST INSTANCE NEPAL HAS
TO FIGHT TO OBTAIN RAILROAD CARS FROM CALCUTTA TO BAURANI.
BUT THEN CARS ARE OFTEN NOT AVAILABLE FROM BAURANI TO
RAXAUL. IN NEPALESE VIEW, ONLY FEASIBLE SOLUTION, AS TRUCK
TRANSPORT IS TOO EXPENSIVE, IS FOR INDIANS TO EXTEND BROAD
GAGE TRACK ALL WAY TO RAXAUL. NEPALESE SEEMED TO THINK THERE
WAS CHANCE THAT GOI WOULD AGREE TO DO THIS IN NOT TOO DISTANT
FUTURE. CARGO

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